

**SOUTH CAROLINA STATE FISCAL
ACCOUNTABILITY AUTHORITY
INSURANCE RESERVE FUND**

(An internal service fund of the State of South Carolina)

FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2021**



SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

September 15, 2021

Members of the State Fiscal Accountability Authority
Columbia, South Carolina

This report on the audit of the financial statements of the State Fiscal Accountability Authority – Insurance Reserve Fund for the fiscal year ended June 30, 2021, was issued by Mauldin & Jenkins, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

George L. Kennedy, III, CPA
State Auditor

GLKIII/trb

SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2021

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INDEPENDENT AUDITOR'S REPORT

To Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the **South Carolina State Fiscal Accountability Authority Insurance Reserve Fund** (the "Fund"), a fund of the State Fiscal Accountability Authority, as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina State Fiscal Accountability Authority Insurance Reserve Fund as of June 30, 2021, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Insurance Reserve Fund of the South Carolina State Fiscal Accountability Authority and do not purport to, and do not, present fairly the financial position of the South Carolina State Fiscal Accountability Authority, which is a part of the State of South Carolina primary government, as of June 30, 2021, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to the matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 4 through 10), the Schedule of Fund's Proportionate Share of the Net Pension Liability (on page 49), the Schedule of Fund Pension Contributions (on page 50), the Schedule of Fund's Proportionate Share of the Net OPEB Liability (on page 51), and the Schedule of Fund OPEB Contributions (on page 52), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2021, on our consideration of the South Carolina State Fiscal Accountability Authority Insurance Reserve Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Columbia, South Carolina
September 15, 2021

SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the South Carolina State Fiscal Accountability Authority Insurance Reserve Fund (the "Fund") provides an overview of the major financial activities affecting the operations of the Fund. This overview encompasses the financial performance and financial statements of the Fund for the fiscal year ended June 30, 2021. The information contained in this MD&A is prepared by management and should be considered in conjunction with the information contained in the Independent Auditor's Report and notes to the financial statements. Following this MD&A are the basic financial statements of the Fund, together with the notes, which are essential to a full understanding of the data contained in the financial statements.

Financial Highlights

Key financial highlights for fiscal year 2021 are as follows:

- The Fund's net position increased by \$49,180,002 or 28.63 percent;
- The assets and deferred outflows of resources of the Fund exceeded its liabilities and deferred inflows of resources at June 30, 2021, by \$220,983,537.
- The Fund reported operating income of \$42,839,028 compared with a loss of \$6,323,194 in the prior year.
- The Fund recognized investment income of \$6,301,016 for the fiscal year ended June 30, 2021, as compared to \$35,400,049 in the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements. The notes to the financial statements contain more detail on some of the information presented in the financial statements. The financial statements of the Fund report information about the Fund using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position presents information on all of the Fund's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between these items reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating. The Statement of Net Position can be found on page 11 of this report.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Fund's net position changed during the fiscal year ended June 30, 2021. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave). The Statement of Revenues, Expenses, and Changes in Net Position can be found on page 12 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements (Continued)

The Statement of Cash Flows presents information regarding the net changes in cash and cash equivalents resulting from (1) operations, (2) non-capital and related financing activities, and (3) investing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within the financial statements. The notes to the financial statements can be found on pages 14 through 48 of this report.

Financial Statements

Net Position: The following table presents condensed Statements of Net Position as of June 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Current assets	\$ 114,732,905	\$ 119,008,704
Non-current assets	<u>566,414,225</u>	<u>518,218,499</u>
Total assets	<u>681,147,130</u>	<u>637,227,203</u>
Deferred outflows of resources	<u>1,795,750</u>	<u>1,194,459</u>
Current liabilities	451,095,441	456,603,876
Long-term liabilities	<u>9,979,929</u>	<u>9,216,823</u>
Total liabilities	<u>461,075,370</u>	<u>465,820,699</u>
Deferred inflows of resources	<u>883,973</u>	<u>797,428</u>
Net position:		
Unrestricted	<u>220,983,537</u>	<u>171,803,535</u>
Total net position	<u>\$ 220,983,537</u>	<u>\$ 171,803,535</u>

The Fund's total current assets decreased by \$4,275,799 during the fiscal year ended June 30, 2021. Elements to consider related to these changes include:

- The Fund's cash and cash equivalents decreased approximately \$5.41 million during the fiscal year ended June 30, 2021.
- The Fund's accounts receivable increased approximately \$472,000 during the fiscal year ended June 30, 2021.
- The Fund's prepaid expenses increased by approximately \$970,000 during the fiscal year ended June 30, 2021.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements (Continued)

The Fund's investments increased by approximately \$48.20 million during the fiscal year ended June 30, 2021. Elements to consider related to these changes include:

- For the fiscal year ended June 30, 2021, the South Carolina State Treasurer's Office purchased investments on behalf of the Fund in the amount of \$178,183,257, while sales and maturities of investments totaled \$129,987,531. Additionally, the Fund recognized an overall decrease in the fair market value of its investments of \$21,910,825.

The Fund's current liabilities decreased by approximately \$5.51 million during the fiscal year ended June 30, 2021. Elements to consider related to these changes include:

- The Fund's unearned revenues decreased by approximately \$4.34 million during the year ended June 30, 2021.
- The Fund's claims payable and claims incurred but not reported decreased by approximately \$388,000 and \$719,000, respectively.

The Fund's long-term liabilities increased by approximately \$763,000 during the current year primarily as a result of an increase in the net pension liability and the net OPEB liability of approximately \$263,000 and \$494,000, respectively.

The Fund's net position increased by \$49,180,002 during the fiscal year ended June 30, 2021. These changes are attributed to operating income for the year of \$42,839,028 supplemented by investment income of \$6,301,016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements (Continued)

Revenues, Expenses and Changes in Net Position: The following table summarizes the revenues, expenses and changes in net position for the fiscal years ended June 30, 2021 and 2020.

	2021	2020
Operating revenues:		
Insurance premiums	\$ 188,869,583	\$ 163,397,815
Operating revenues	<u>188,869,583</u>	<u>163,397,815</u>
Operating expenses:		
Claims	87,776,793	115,855,021
Reinsurance premiums	52,396,844	46,764,155
Administrative	5,856,918	7,101,833
Operating expenses	<u>146,030,555</u>	<u>169,721,009</u>
Operating income (loss)	42,839,028	(6,323,194)
Nonoperating revenues		
Investment income	6,301,016	35,400,049
Other non-operating revenues	39,958	8,626
Nonoperating revenue	<u>6,340,974</u>	<u>35,408,675</u>
Change in net position	49,180,002	29,085,481
Net position, beginning of year	<u>171,803,535</u>	142,718,054
Net position, end of year	<u>\$ 220,983,537</u>	<u>\$ 171,803,535</u>

For the fiscal year ended June 30, 2021, operating expenses decreased \$23,690,454, or 14% to \$146,030,555. The majority of the current year decrease in expenses is the result of decreased claims expenses of approximately \$20.71 million, decreased claims related expenses of approximately \$7.37 million, and decreased administrative expense of approximately \$1.24 million partially offset by an increase in reinsurance premiums expenses of approximately \$5.63 million.

For the fiscal year ended June 30, 2021, non-operating revenues of the Fund totaled \$6,340,974, which was approximately \$29.07 million lower than the fiscal year ended June 30, 2020. This decrease is attributable to a decrease in investment income of approximately \$29.1 million due to fluctuations in the fair market value of the State's investment portfolio which is primarily comprised of debt securities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements (Continued)

Statement of Cash Flows: The following table summarizes the cash flows for the fiscal years ended June 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Net cash from operating activities	\$ 36,136,832	\$ 16,187,567
Net cash from non-capital financing activities	39,958	8,626
Net cash from investing activities	<u>(41,590,966)</u>	<u>(2,633,053)</u>
Net increase (decrease) in cash and cash equivalents	(5,414,176)	13,563,140
Cash and cash equivalents, beginning of year	<u>20,850,401</u>	<u>7,287,261</u>
Cash and cash equivalents, end of year	<u>\$ 15,436,225</u>	<u>\$ 20,850,401</u>

For the fiscal year ended June 30, 2021, cash from operating activities resulted in an increase in cash and cash equivalents of approximately \$36.14 million. This is an increase from the amount of cash used in operating activities in fiscal year 2020 of approximately \$19.95 million. The majority of the increase in cash from operating activities is the result of increased receipts from insurance premiums (approximately \$8.81 million) and decreased payments for claims and claims related expenses (approximately \$12.84 million) in fiscal year 2021 as compared to fiscal year 2020.

As noted previously, cash and cash equivalents decreased by \$5,414,176 during fiscal year 2021. This is a decrease from fiscal year 2020 where a net increase in cash and cash equivalents of \$13,563,140 was reported.

Overview of the Fund

The Fund is a self-insurance mechanism operated by the State of South Carolina. In many respects, the Fund functions in the same way as an insurance company. The Fund issues policies, collects premiums, pays losses, and purchases reinsurance against swings in experience or catastrophic losses. As an insurance operation, the Fund files a National Association of Insurance Commissioners Annual Statement each year with and is subject to periodic audits by the South Carolina Department of Insurance. The Fund does not market its services or pay marketing costs. Also, the Fund does not pay taxes or participate in any Guaranty Fund or Pool. As a self-insurance mechanism, the Fund is responsible for funding fortuitous losses experienced by governmental entities in South Carolina and offers very broad and, in some cases, unique coverage for its insureds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors/Economic Outlook

The Fund has maintained adequate reinsurance. Until 2021, the Fund purchased \$600 million of coverage subject to a maximum self-insured retention of \$10 million per occurrence and \$15 million in the annual aggregate with a \$1 million trailing per occurrence for subsequent claims. As a result of the series of catastrophic global weather events of the last few years, the property reinsurance market continues to harden. In 2018, the Fund's property reinsurance program saw an increase in cost of over 8% (approximately \$1.9 million); in 2019, an increase of nearly 12% (approximately \$3.5 million); in 2020 an increase in cost of nearly 22% (approximately \$5.7 million) and in 2021 an increase in cost of 7% (approximately \$1.2 million). In 2021, the Fund reduced the amount purchased to \$500 million, which based on modeling, is projected to be sufficient for a 100-year storm event. It is expected that the markets will continue this pattern of increased pricing and less capacity resulting in the Fund having to pay more for its property reinsurance over the next several years. In addition, after 14 years of a stable broker relationship, IRF is soliciting a Property Reinsurance Broker through a competitive process which may also result in changes to the property reinsurance program and costs.

For five consecutive years, the Fund dealt with natural catastrophes. The natural catastrophes are as follows:

Fiscal Year	Date of Loss	Event	Number of Claims	Number of Segments Reported	Last Claim Closed	Total Paid	Recovered through Reinsurance
15-16	10/3/2015	Oct 2015 Flood	160	1094	11/21/2016	\$13.1 Million	\$3.1 Million
16-17	10/8/2016	Hurricane Matthew	268	3483	11/7/2019	\$25.4 Million	\$15.4 Million
17-18	9/11/2017	Hurricane Irma	79	359	7/25/2019	\$4.3 Million	\$0
18-19	9/14/2018	Hurricane Florence	73	1077	3/10/2020	\$10.3 Million	\$254 K
18-19	10/11/2018	Hurricane Michael	16	32	1/3/2020	\$455 K	\$0
19-20	9/5/2019	Hurricane Dorian	55	529	10/20/2020	\$5.1 Million	\$0

The impact of the consecutive years of catastrophes is listed above with a total paid by IRF of approximately \$39 million above typical years of property loss. In addition, the Fund experienced other significant property losses including the April 2020 tornados with cumulative losses of approximately \$2.6 million effecting multiple insureds. The payment of these losses had an immediate impact to the policyholder equity and financial position of the Fund, and an additional impact of reduction of assets available for investment which reduced investment income.

Fortunately, in 2020-21 the Fund did not experience a costly natural catastrophe. In addition, the first three years of Rate Increases have now been fully realized, and the most recent rate increase has been partially realized.⁽¹⁾ The realization of rate increases, combined with a property loss year without excessive CAT losses, has resulted in the Fund experiencing an Operating Income of approximately \$42.8 million. By statute, the Fund assets are invested and managed by the South Carolina Office of the State Treasurer which reported investment income of \$6.3 million for a total increase to Net Position of approximately \$49.1 million. This increase has changed the Net Position from approximately \$172 million to approximately \$221 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors/Economic Outlook

(1) Chart of IRF Rate increases by year and line of insurance

Fiscal Year	Policy Lines Effected	Percent (%) Change	Projected Dollar Impact	Effective Date
17-18	Property lines - Beach and Seacoast territories	30.0	\$5.2 Million	7/1/2017
18-19	Automobile Physical Damage (Comprehensive and Collision)	10.0	\$10.2 Million	7/1/2018
	Property lines	12.0		
	Inland Marine	15.0		
	General (Tort) Liability	15.0		
	Tort -Law Enforcement - State	40.0		
19-20	Automobile Physical Damage (Comprehensive and Collision)	25.0	\$24.4 Million	7/1/2019
	Property lines - Inland territories	15.0		
	Property lines - Beach and Seacoast territories	23.0		
	Inland Marine	15.0		
	General (Tort) Liability	25.0		
	Professional Liability (Medical) - State entities	30.0		
	Professional Liability (Medical) - Non-State entities	25.0		
	Auto Liability	16.0		
20-21	Automobile Physical Damage (Comprehensive and Collision)	18.0	\$26.7 Million	7/1/2020
	Professional Liability (Medical)	18.0		
	General (Tort) Liability - State			
	Tort -Law Enforcement - State	252.0		
	All Remaining Exposures - State	40.0		
	Optional PPL Ext - State	100.0		
	General (Tort) Liability - Non-State			
	Tort -Law Enforcement -Non-State	50.0		
	All Remaining Exposures - Non-State	20.0		
	Optional PPL Ext - Non-State	200.0		

Requests for Information

This financial overview is designed to provide readers with a general overview of the Fund's finances, and to show accountability. If you have questions or would like further information about this financial report, you may contact Mable Prioleau, Accounting Fiscal Manager, (803) 737-0260.

SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY

INSURANCE RESERVE FUND

STATEMENT OF NET POSITION

JUNE 30, 2021

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current assets:

Cash and cash equivalents	\$ 15,436,225
Receivables:	
Premiums receivable, net of allowance	69,275,098
Accrued interest	2,819,730
Prepaid reinsurance	27,201,852
Total current assets	<u>114,732,905</u>

Non-current assets:

Investments	566,414,225
Total non-current assets	<u>566,414,225</u>
Total assets	<u>681,147,130</u>

Deferred outflows of resources:

Pension	793,725
Other postemployment benefits	1,002,025
Total deferred outflows of resources	<u>1,795,750</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current liabilities:

Accounts payable	13,000
Accrued salaries and related expenses	265,575
Accrued compensated absences	191,301
Unearned premium revenue	116,962,009
Claims payable	213,620,021
Claims incurred but not reported	120,043,535
Total current liabilities	<u>451,095,441</u>

Non-current liabilities:

Accrued compensated absences, net of current portion	47,825
Net pension liability	5,242,551
Net other postemployment benefits liability	4,689,553
Total non-current liabilities	<u>9,979,929</u>
Total liabilities	<u>461,075,370</u>

Deferred inflows of resources:

Pension	278,102
Other postemployment benefits	605,871
Total deferred inflows of resources	<u>883,973</u>

Net position:

Unrestricted	220,983,537
Total net position	<u>\$ 220,983,537</u>

The accompanying notes are an integral part of these financial statements.

**SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY
INSURANCE RESERVE FUND**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Operating revenues:

Insurance premiums	\$ 188,869,583
Total operating revenues	<u>188,869,583</u>

Operating expenses:

Claims	67,459,537
Claims related expenses	20,317,256
Reinsurance premiums	52,396,844
Professional services	154,487
Salaries and benefits	3,619,843
Other services	797,437
Authority allocation	1,215,000
Other operating expenses	70,151
Total operating expenses	<u>146,030,555</u>

Operating income	<u>42,839,028</u>
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Non-operating revenues:

Investment income	6,301,016
Other non-operating revenues	39,958
Total non-operating revenues	<u>6,340,974</u>

Change in net position	49,180,002
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Net position, beginning of year	<u>171,803,535</u>
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Net position, end of year	<u><u>\$ 220,983,537</u></u>
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The accompanying notes are an integral part of these financial statements.

SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from insurance premiums	\$ 183,970,536
Payments for claims and claims related expenses	(88,883,392)
Payments for reinsurance premiums	(53,367,238)
Payments for professional services	(154,487)
Payments to suppliers	(2,076,245)
Payments for salaries and benefits	(3,352,342)
Net cash provided by operating activities	<u>36,136,832</u>

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Other non-operating receipts	39,958
Net cash provided by non-capital financing activities	<u>39,958</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(178,183,257)
Proceeds from the sale of investments	129,987,531
Income from investments	6,604,760
Net cash used in investing activities	<u>(41,590,966)</u>

Decrease in cash and cash equivalents	(5,414,176)
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Cash and cash equivalents:

Beginning of year	<u>20,850,401</u>
End of year	<u>\$ 15,436,225</u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 42,839,028
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) decrease in:	
Premiums receivable	(471,727)
Reinsurance recoverable	(85,730)
Prepaid insurance	(970,394)
Deferred outflows of resources - pension	(112,543)
Deferred outflows of resources - other postemployment benefits	(488,748)
Increase (decrease) in:	
Accounts payable	6,343
Accrued salaries and related expenses	607
Accrued compensated absences	24,031
Unearned premium revenue	(4,341,590)
Claims payable	(388,042)
Claims incurred but not reported	(718,557)
Deferred inflows of resources - pension	57,470
Deferred inflows of resources - other postemployment benefits	29,075
Net pension liability	263,403
Net other postemployment benefits liability	494,206
Net cash provided by operating activities	<u>\$ 36,136,832</u>

Supplementary Schedule of Non-cash Investing, Capital and Financing Activities:

Decrease in fair value of investments	\$ (21,910,825)
Net non-cash investing, capital and financing activities	<u>\$ (21,910,825)</u>

The accompanying notes are an integral part of these financial statements.

SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The State Fiscal Accountability Authority Insurance Reserve Fund is a fund of the State Fiscal Accountability Authority, which is a part of the State of South Carolina (the "State") primary government. This report contains only the Fund and no other offices or funds of the State Fiscal Accountability Authority or any other part of the State of South Carolina primary government are included. The Insurance Reserve Fund (the "Fund") is under the control of the State Fiscal Accountability Authority (the "SFAA").

The SFAA was established and created by the South Carolina Restructuring Act of 2014, Act 121. The funds of the SFAA are included in the Annual Comprehensive Financial Report of the State of South Carolina.

All of the divisions of the SFAA reporting entity are under the control of its Executive Director. SFAA is governed by a five-member Authority, consisting of the Governor, the State Treasurer, the Comptroller General, the Chairman of the Senate Finance Committee, and the Chairman of the House Ways and Means Committee, all of whom serve in an ex-officio capacity.

Programs managed by the Fund are authorized in the following sections of the South Carolina Code of Laws, 1976, as amended: Section 1-11-140 (tort liability, medical professional liability for individuals and entities and risk management section); Section 1-11-710 (A) (4) (risk management section); Regulation 19-612 (automobile liability); Section 10-7-10 et. seq. (property); Section 59-67-710 (school bus liability); and Section 59-67-790 (school bus pupil injury). Section 15-78-10 et. seq. (the S.C. Tort Claims Act) further defines parameters of coverage provided by the Fund.

The Fund insures state agencies, school districts, special purpose political subdivisions, county governments and municipal governments in South Carolina. The Fund provides property insurance on governmentally owned buildings, the contents of such buildings, equipment and automobiles. The Fund provides automobile liability insurance on governmentally owned vehicles and school buses, tort liability insurance for government premises and operations, and medical professional liability for hospitals. The Fund is a self-insurer and purchases reinsurance to limit losses in the areas of property insurance, boiler and machinery insurance, and automobile liability insurance.

The Fund collects premiums from participating entities, issues policies, and pays claims incurred under the policies from accumulated premiums and earnings on investments and notes receivable. The premium rates are determined in consultation with the actuary and the SFAA. The Fund allocates the costs of providing claims servicing and claims payments by charging each participant a premium. Interest income is considered in the premium rate setting process.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation

The Fund is an internal service fund within the State Fiscal Accountability Authority as the State's managers have determined that the State is the predominant participant in the Fund.

The financial statement presentation for the Fund meets the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. As an internal service fund, the Fund in its stand-alone financial statements is considered a proprietary fund under the guidance of GASB Statement No. 34. However, the guidance requires internal service funds included in the basic financial statements of the primary government to be reported as part of the governmental activity. Therefore, presentation in the Annual Comprehensive Financial Report of the State of South Carolina will include this fund as a governmental activity.

The Fund's financial statements have been presented using the economic resources measurement focus which is based upon a determination of net income, financial position, and cash flows. Under this method, all assets and liabilities associated with the operation of the Fund are included on the statement of net position. Net position is segregated into net investment in capital assets, restricted, and unrestricted net position components.

The Fund uses the accrual basis of accounting. Revenue is recognized in the accounting period in which they are earned and become measureable; expenses are recognized in the period incurred, if measurable. The Fund reports claims liabilities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

In accounting and reporting for its operations, the Fund applies all GASB pronouncements. The Fund's financial statements include the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and, Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Fund's overall financial position and results of operations.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents and Investments

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Fund considers all highly liquid securities with a maturity of three months or less at the time of purchase to be cash equivalents. Most State agencies, including the Fund, participate in the State's internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds. Because the State's internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents.

The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the internal cash management pool, see the Deposits and Investments disclosures in Note 2.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Deposits in the general deposit account are recorded and reported at cost. However, the Fund reports its deposits in the special deposit accounts at fair value. Interest earned by the agency's special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total income receivable of the pool.

The amounts shown in the financial statements as "cash and cash equivalents" represent cash on deposit with the State Treasurer as a part of the State's internal cash management pool, and cash invested in various short term instruments by the State Treasurer and held in separate agency accounts.

Investments - Deposits and investments for the Fund are governed by the South Carolina Code of Laws, Section 11-9-660, "Investment of Funds". The Fund accounts for its investments at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Changes in unrealized gain or loss on the carrying value of investments are reported as a component of investment income in the statement of revenues, expenses, and changes in net position.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents and Investments (Continued)

Investment income consists of interest earned during the year, amortization of premiums and accretion of discounts, realized gains/losses on securities, and unrealized gains/losses resulting from changes in fair value. Earnings are posted to the Fund's account at the end of each month. Securities and securities transactions are reflected in the financial statements on a trade-date basis.

The Fund has a number of financial instruments, none of which are held for trading purposes. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposits and repurchase agreements, are reported at amortized cost which approximates fair value. See Note 2 for additional information.

Receivables

Premiums receivable consist of receivables from insurance coverage policies. Allowances for doubtful accounts are maintained based on an estimate of collections for those balances aged over 90 days.

Reinsurance Recoverable

The Fund purchases reinsurance for catastrophic losses above certain thresholds on a per occurrence, in the aggregate, and trailing after both occurrence and in the aggregate basis. Amounts to be repaid to the Fund through its purchase of such reinsurance policies are reported in the Statement of Net Position as reinsurance recoverable.

Prepaid Expenses

Payments made to insurers and reinsurers for services that will benefit future periods are recorded as prepaid expenses. The related expense is recognized pro-rata over the policy periods.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least half of the days in the month are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The Fund calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the Fund.

Unearned Premium Revenue

Premiums billed in advance of coverage, payments received in advance of coverage, or in excess of amounts billed and premiums collected but unearned are recorded as unearned premium revenue.

Claims Payable

Claims payable represents claims resulting from losses that have been incurred but not paid at June 30. The claims payable balance is based on actual losses incurred and settled and estimated losses for claims in the final stages of review and settlement.

Claims Incurred but Not Reported (IBNR)

Losses are recorded at estimated amounts at the time they are reported and include a provision for expenses associated with claim settlements. Insurance claims are expensed as incurred over the period of coverage. The Fund establishes an unpaid claim liability for claims in the process of review, and for IBNR claims. The liability for IBNR claims is actuarially estimated based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, and award trends. Estimates of liabilities for incurred claims are continually reviewed and revised as changes in these factors occur and revisions are reflected in the current year's operating statement in the applicable claims expense. The liability is reported net of estimated receivables for salvage, subrogation, and reinsurance. Amounts for allocated and unallocated claims adjustment expenses have been included in the calculation of IBNR.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for *deferred outflows of resources*. This separate financial statement element represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense) until then. Five (5) items relating to the Fund's Pension Plan and four (4) items relating to the Fund's Other Postemployment Benefit Plan (OPEB) qualify for reporting in this category and are combined in the Statement of Net Position under the headings "Pension" and "Other Postemployment Benefits", respectively. The first item, experience losses, results from periodic studies by the actuary of the Pension Plan and OPEB Plan, which adjust the net pension and net OPEB liabilities for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience losses are recorded as deferred outflows of resources and are amortized into pension and OPEB expense over the expected remaining service lives of the plan members. The second item, differences between projected investment return on pension investments and actual return on those investments, is deferred and amortized against pension expense over a four-year period for pensions, resulting in recognition as a deferred outflow of resources. The third item results from changes in the proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions relative to both the pension and OPEB plans. These changes are reported as deferred outflows of resources and will be recognized as a reduction of the net pension and OPEB liabilities in future years. The fourth item, changes in the actuarial assumptions, adjust the net pension liability and the net OPEB liability, and are amortized into pension and OPEB expense, respectively, over the expected remaining service lives of plan members. Additionally, the fifth item, any contributions made by the Fund to the pension plan and OPEB plan, respectively, before year-end but subsequent to the measurement date of the Fund's net pension liability and net OPEB liability are reported as deferred outflows of resources and will be recognized as a reduction of the respective net pension liability and net OPEB liability during the fiscal year ended June 30, 2022.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position reports a separate section for *deferred inflows of resources*. This separate financial statement element represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Two (2) items relating to the Fund's pension plan and four (4) items relating to the Fund's OPEB plan qualify for reporting in this category and are combined in the Statement of Net Position under the heading "Pension" and "Other Postemployment Benefits", respectively. The first item, experience gains relating to the Fund's pension plan and OPEB plan qualify for reporting in this category. Experience gains result from periodic studies by the actuaries of the pension plan and OPEB plan, which adjust the net pension and the net OPEB liabilities for actual experience for certain trend information that was previously assumed. These gains are recorded as deferred inflows of resources and are amortized into pension and OPEB expense over the expected remaining lives of the plan members. The second item results from changes in the proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions relating the Fund's pension and OPEB plans. These changes are reported as deferred inflows of resources and will be recognized as pension and OPEB expense, respectively, in future years. The third item, changes in the actuarial assumptions, adjust the net OPEB liability and are amortized into OPEB expense, respectively, over the expected remaining service lives of plan members. The fourth item results from differences between projected and actual OPEB plan investments. These differences are recognized in a systematic and rational manner over a closed five-year period.

Net Position Classification

Net position is classified and displayed in three components within the Statement of Net Position. These three classifications are as follows:

- a) Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.
- b) Restricted net position consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c) Unrestricted net position consists of all other net position that does not meet the definition of "restricted".

As of June 30, 2021, the Fund reported only unrestricted net position. Additionally, when both restricted and unrestricted resources are available to finance expenses, it is the Fund's policy to apply restricted resources first.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating and Non-operating Revenues and Expenses

Operating revenues and expenses in the financial statements are those that result from providing services and producing and delivering goods and/or services. Also included are all revenues and expenses not related to capital and related financing, non-capital financing, or investing activities. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTE 2. DEPOSITS AND INVESTMENTS

Total deposits as of June 30, 2021, are summarized as follows:

As reported in the *Statement of Net Position*:

Cash and cash equivalents	15,436,225
Investments	566,414,225
	<u>581,850,450</u>

Cash deposited with the South Carolina State Treasurer's Office	15,252,104
Cash held by third party administrator	184,121
U.S. Government and agency bonds	342,494,340
Corporate bonds and commercial paper	223,919,885
	<u>581,850,450</u>

Custodial Credit Risk – Deposits and Investments. Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. For an investment, this is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2021, all of the Fund's deposits and investments held by the South Carolina State Treasurer's Office were covered under federal depository insurance and/or collateralized with securities held by the pledging financial institution's trust department or agent.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The South Carolina State Treasurer's Office has adopted a formal investment policy that limits liquid investment to cash, repurchase agreements, United States Treasury of federal agency discount notes, and commercial paper. Additionally, the State Treasurer further preserves principal by investing mostly in the highest investment grade securities. In order to diversify investment holdings, asset allocation policies are utilized for investments having more than one year to maturity. For further information regarding the State of South Carolina's interest rate risk policies, refer to the State's publicly available annual comprehensive financial report. Overall credit exposure is managed by asset allocation policies and by additional constraints controlling risk exposure to individual corporate issuers.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The South Carolina State Treasurer's Office has adopted a formal investment policy in accordance with state statutes, which authorize the types of permitted investments. Information regarding the State of South Carolina's credit rate risk policies can be found in the State's publicly available comprehensive annual financial report.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2021, the Fund's exposure to interest rate risk and credit risk regarding its investments is as follows:

Investment	Fair Value	Credit Rating	Weighted Average Maturity (Years)
U.S. government and agency bonds:			
U.S. Treasury bonds	\$ 300,412,924	Aaa	3.98
Collateralized mortgage obligations, mortgage and asset backed securities	17,298,625	Aa1	30.14
Collateralized mortgage obligations, mortgage and asset backed securities	24,782,791	Not rated	16.11
Corporate bonds and commercial paper	2,921,902	Aa1	4.08
Corporate bonds and commercial paper	5,835,664	Aa2	4.28
Corporate bonds and commercial paper	16,400,735	A1	4.95
Corporate bonds and commercial paper	39,925,752	A2	5.63
Corporate bonds and commercial paper	28,656,805	A3	4.87
Corporate bonds and commercial paper	44,467,908	Baa1	5.51
Corporate bonds and commercial paper	52,939,413	Baa2	5.35
Corporate bonds and commercial paper	26,463,173	Baa3	5.41
Corporate bonds and commercial paper	648,291	Ba1	3.24
Corporate bonds and commercial paper	5,660,242	Not rated	3.57
	<u>\$ 566,414,225</u>		

Fair Value Measurements. The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. DEPOSITS AND INVESTMENTS (CONTINUED)

The Fund has the following recurring fair value measurements as of June 30, 2021:

Investment	Level 1	Level 2	Level 3	Fair Value
Debt securities:				
U.S. Treasury bonds	\$ 300,412,924	\$ -	\$ -	\$ 300,412,924
Collateralized mortgage obligations and asset backed securities	-	42,081,416	-	42,081,416
Corporate bonds and commercial paper	-	223,919,885	-	223,919,885
Total investments measured at fair value	<u>\$ 300,412,924</u>	<u>\$ 266,001,301</u>	<u>\$ -</u>	
Total investments				<u>\$ 566,414,225</u>

The U.S. Treasury bonds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those investments.

The collateralized mortgage obligations and asset backed securities and the corporate bonds and commercial paper investments classified in Level 2 of the fair value hierarchy are valued using a pricing matrix technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The Fund has no investments classified in Level 3 of the fair value hierarchy.

The repurchase agreements are measured at amortized cost as a practical expedient due to the absence of a readily determinable fair value associated with such investments. As a result, these instruments are not categorized according to the fair value hierarchy and are considered cash equivalents.

NOTE 3. RECEIVABLES

Premiums receivable including the allowances for uncollectible accounts consisted of the following at June 30, 2021:

Premiums receivable:	
State government	\$ 38,620,042
Local governments	29,397,209
Other	<u>1,710,967</u>
Less: Allowance for uncollectible accounts	<u>(453,120)</u>
Total premiums receivable, net	<u>\$ 69,275,098</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 4. LONG-TERM LIABILITIES

The following is a summary of long-term liability activity for the Fund for the fiscal year ended June 30, 2021:

	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Due Within One Year
Compensated absences	\$ 215,095	\$ 191,633	\$ (167,602)	\$ 239,126	\$ 191,301
Net pension liability	4,979,148	974,255	(710,852)	5,242,551	-
Net OPEB liability	4,195,347	826,983	(332,777)	4,689,553	-
	<u>\$ 9,389,590</u>	<u>\$ 1,992,871</u>	<u>\$ (1,211,231)</u>	<u>\$ 10,171,230</u>	<u>\$ 191,301</u>

Compensated absences payable: As discussed in Note 1, this obligation represents accumulated annual leave and compensatory time benefits which are accrued when incurred.

Net Pension Liability: See Note 5 for additional information.

Net OPEB Liability: See Note 6 for additional information.

NOTE 5. PENSION PLANS

Overview

The South Carolina Public Employee Benefit Authority (PEBA), created July 1, 2012, is the state agency responsible for the administration and management of the various Retirement Systems and retirement programs of the state of South Carolina, including the State Optional Retirement Program and the S.C. Deferred Compensation Program, as well as the state's employee insurance programs. As such, PEBA is responsible for administering the South Carolina Retirement Systems' five defined benefit pension plans. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as custodian, co-trustee and co-fiduciary of the Systems and the assets of the retirement trust funds. The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005, has exclusive authority to invest and manage the retirement trust funds' assets. The Commission, an eight-member board, serves as co-trustee and co-fiduciary for the assets of the retirement trust funds. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the actuary of the Systems. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP).

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Overview (Continued)

For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value. PEBA issues an Annual Comprehensive Financial Report containing financial statements and required supplementary information for the South Carolina Retirement System's Pension Trust Funds. The Annual Comprehensive Financial Report is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the annual comprehensive financial report of the state.

Plan Descriptions

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions. SCRS covers employees of state agencies, public school districts, higher education institutions, other participating local subdivisions of government and individuals newly elected to the South Carolina General Assembly at or after the 2012 general election. The State Optional Retirement Program (State ORP) is a defined contribution plan that is offered as an alternative to SCRS to certain newly hired employees of state agencies, institutions of higher education, public school districts and individuals first elected to the General Assembly at or after the general election in November 2012. State ORP participants direct the investment of their funds into an account administered by one of four third party service providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the four third party service providers. For this reason, State ORP assets are not part of the retirement systems' trust funds for financial statement purposes.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements the system is described below.

South Carolina Retirement System – Generally, all employees of covered employers are required to participate in and contribute to the SCRS as a condition of employment. This plan covers general employees, teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Membership (Continued)

State ORP – As an alternative to membership in SCRS, certain newly hired state, public school, and higher education employees and individuals first elected to the S.C. General Assembly at or after the November 2012 general election have the option to participate in the State ORP. Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employer to the member's account with the ORP service provider for the employee contribution and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution and an incidental death benefit contribution, if applicable, which is retained by SCRS.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms is presented below.

South Carolina Retirement System – A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active or retired members of employees who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of 1% or \$500 every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Contributions

Actuarial valuations are performed annually by an external consulting actuary to ensure applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina Code of Laws. Under these provisions, SCRS contribution requirements must be sufficient to maintain an amortization period for the financing of the unfunded actuarial accrued liability (UAAL) over a period that does not exceed the number of years scheduled in state statute. Legislation in 2017 increased, but also established a ceiling for SCRS employee contribution rates. Effective July 1, 2017, employee rates were increased to a capped rate of 9.00 percent for SCRS. The legislation also increased employer contribution rates beginning July 1, 2017 for SCRS by two percentage points and further scheduled employer contribution rates to increase by a minimum of one percentage point each year in accordance with state statute. However, the General Assembly postponed the one percent increase in the SCRS employer contribution rates that was scheduled to go into effect beginning July 1, 2020. If the scheduled contributions are not sufficient to meet the funding periods set in state statute, the board shall increase the employer contribution rates as necessary to meet the funding periods set for the applicable year. The maximum funding period of SCRS is scheduled to be reduced over a ten-year schedule from 30 years beginning fiscal year 2018 to 20 years by fiscal year 2028.

Additionally, the Board is prohibited from decreasing the SCRS contribution rates until the funded ratio is at least 85 percent. If the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than 85 percent, then the board, effective on the following July 1, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than 85 percent. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than 85 percent, then effective on the following July 1, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 85 percent.

Required employee contribution rates for the fiscal year ended June 30, 2021, for the SCRS and State ORP plans, are as follows:

South Carolina Retirement System	
Employee class two	9.00%
Employee class three	9.00%
State ORP	
Employee	9.00%

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Contributions (Continued)

Required employer contribution rates for the fiscal year ended June 30, 2021, for the SCRS and State ORP plans, are as follows:

South Carolina Retirement System	
Employer class two	15.41%
Employer class three	15.41%
Employer incidental death benefit	0.15%
State ORP	
Employer*	15.41%
Employer incidental death benefit	0.15%

(*) Of this employer contribution, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to the SCRS.

For the fiscal year ended June 30, 2021, the Fund's contributions to the SCRS plan amounted to \$315,421.

For the fiscal year ended June 30, 2021, Fund and Fund employees' contributions to the State ORP plan were as follows:

State ORP		
Employee required contribution	\$	51,798
Employer required contribution	\$	72,760
Percent contributed		100%

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Actuarial Assumptions and Methods

Actuarial valuations of the plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. An experience report on the Systems was most recently issued for the period ending June 30, 2019 for first use in the July 1, 2021 actuarial valuation.

The June 30, 2020, (the measurement date) total pension liability, net pension liability, and sensitivity information were determined by the consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2019, actuarial valuations, as adopted by the PEBA Board and Budget and Control Board, which utilized membership data as of July 1, 2019. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ended June 30, 2020, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

Assumptions and methods used in the July 1, 2019, valuation for the System are as follows:

	SCRS
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	3.0% to 12.5% (varies by service)
Includes inflation at	2.25%
Benefit adjustments	lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member's job category and gender. The base mortality assumptions, the 2016 Public Retirees of South Carolina Mortality table (2016 PRSC), was developed using the Systems' mortality experience. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2016.

Former Job Class	Males	Females
General Employees and Members of the General Assembly	2016 PRSC Males multiplied by 100%	2016 PRSC Females multiplied by 111%

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Actuarial Assumptions and Methods (Continued)

The long-term expected rate of return on pension plan investments is based upon 20-year capital market assumptions. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market-based inputs. Expected returns are net of investment fees.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2020 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation and is summarized in the table below. For actuarial purposes, the 7.25 percent assumed annual investment rate of return used in the calculation of the TPL includes a 5.00 percent real rate of return and a 2.25 percent inflation component.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the table on the following page.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Actuarial Assumptions and Methods (Continued)

Allocation / Exposure	Policy Target	Expected Arithmetic Real Rate of Return	Long-term Expected Portfolio Real Rate of Return
Global equity	51.0%		
Global public equity	35.0%	7.81%	2.73%
Private equity	9.0%	8.91%	0.80%
Equity options securities	7.0%	5.09%	0.36%
Real assets	12.0%		
Real estate (private)	8.0%	5.55%	0.44%
Real estate (REITs)	1.0%	7.78%	0.08%
Infrastructure (private)	2.0%	4.88%	0.10%
Infrastructure (public)	1.0%	7.05%	0.07%
Opportunistic	8.0%		
Global tactical asset allocation	7.0%	3.56%	0.25%
Other opportunistic strategies	1.0%	4.41%	0.04%
Credit	15.0%		
High yield bonds/ bank loans	4.0%	4.21%	0.17%
Emerging markets debt	4.0%	3.44%	0.14%
Private debt	7.0%	5.79%	0.40%
Rate sensitive	14.0%		
Core fixed income	13.0%	1.60%	0.21%
Cash and short duration (net)	1.0%	0.56%	0.01%
	100%		
Total expected real return			5.80%
Inflation for actuarial purposes			2.25%
Total expected nominal return			8.05%

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the sensitivity of the net pension liability to changes in the discount rate as of June 30, 2021 (measurement date of June 30, 2020).

<u>South Carolina Retirement System</u>		
<u>Sensitivity of the Net Position Liability to Changes in the Discount Rate</u>		
	Current	
1% Decrease	Discount Rate	1% Increase
(6.25%)	(7.25%)	(8.25%)
\$ 6,497,499	\$ 5,242,551	\$ 4,194,654

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. The total NPL, as of June 30, 2021 (measurement date of June 30, 2020), for SCRS is presented below.

For the Fund's fiscal year ending June 30, 2021 (measurement date of June 30, 2020), the net pension liability for the South Carolina Retirement System is as follows:

Total pension liability	\$ 10,637,076
Plan fiduciary net position	<u>5,394,525</u>
Employer's net pension liability	<u>\$ 5,242,551</u>
Plan fiduciary net position as a percentage of the total pension liability	50.7%
Fund's proportionate share of the collective net pension liability	0.020517%

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Net Pension Liability (Continued)

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the Systems' notes to the financial statements and required supplementary information. Liability calculations performed by the Systems' actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans' funding requirements.

Pension Expense

For the fiscal year ended June 30, 2021, the Fund recognized its proportionate share of collective pension expense of \$586,588 and recognition of deferred amounts from changes in proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions of \$77,026 for a total of \$663,614 for the SCRS plan.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2021, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

South Carolina Retirement System	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 60,492	\$ 19,824
Changes of assumptions	6,423	-
Net difference between projected and actual earnings on pension plan investments	385,633	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	25,756	258,278
Employer contributions subsequent to the measurement date	315,421	-
Total	\$ 793,725	\$ 278,102

Fund contributions subsequent to the measurement date of \$315,421 for the SCRS plan are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. PENSION PLANS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

As of June 30, 2021, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

South Carolina Retirement System

Year ended June 30:		
2022	\$	(3,383)
2023		17,761
2024		87,418
2025		98,406

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS

Overview

The South Carolina Public Employee Benefit Authority (PEBA) was created by the South Carolina General Assembly as part of Act No. 278 effective July 1, 2012. PEBA is a state agency responsible for the administration and management of the state's employee insurance programs, other post-employment benefits trusts and retirement systems and is part of the State of South Carolina primary government.

The governing board of PEBA is a board of 11 members. The membership composition is three members appointed by the Governor, two members appointed by the President Pro Tempore of the Senate, two members appointed by the Chairman of the Senate Finance Committee, two members appointed by the Speaker of the House of Representatives and two members appointed by the Chairman of the House Ways and Means Committee. Individuals appointed to the PEBA board must possess certain qualifications. Members of the PEBA board serve for terms of two years and until their successors are appointed and qualify. Terms commence on July first of even numbered years. The PEBA board appoints the Executive Director. The laws of the State and the policies and procedures specified by the State for State agencies are applicable to all activities of PEBA. By law, the State Fiscal Accountability Authority (SFAA), which consists of five elected officials, also reviews certain PEBA Board decisions in administering the State Health Plan and other post-employment benefits (OPEB).

NOTES TO FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Plan Description

The Other Post-Employment Benefits Trust Funds (OPEB Trusts), collectively refers to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), were established by the State of South Carolina as Act 195, which became effective on May 2008. The SCRHITF was created to fund and account for the employer costs of the State's retiree health and dental plans.

In accordance with Act 195, the SCRHITF is administered by the PEBA, Insurance Benefits and the State Treasurer is the custodian of the funds held in trust. The Board of Directors of PEBA has been designated as the Trustee.

The SCRHITF is a cost-sharing multiple-employer defined benefit plan. Article 5 of the State Code of Laws defines the plan and authorizes the Trustee to at any time adjust the plan, including its benefits and contributions, as necessary to insure the fiscal stability of the plan. In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental benefits to retired State and school district employees and their covered dependents.

Benefits

The SCRHITF is a healthcare plan that covers retired employees of the State of South Carolina, including all agencies, and public school districts. The SCRHITF provides health and dental insurance benefits to eligible retirees. Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15-24 years of service for 50% employer funding.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Contributions and Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires the postemployment and long-term disability benefits to be funded through non-employer and employer contributions for active employees and retirees to the PEBA – Insurance Benefits. Non-employer contributions consist of an annual appropriation by the General Assembly and the statutorily required transfer from PEBA – Insurance Benefits reserves.

The SCRHITF is funded through participating employers that are mandated by State statute to contribute at a rate assessed each year by the Department of Administration Executive Budget Office on active employee covered payroll. The covered payroll surcharge for the year ended June 30, 2021, was 6.25 percent. The South Carolina Retirement System collects the monthly covered payroll surcharge for all participating employers and remits it directly to the SCRHITF. Other sources of funding for the SCRHITF also include the implicit subsidy, or age-related subsidy inherent in the healthcare premiums structure. The implicit subsidy represents a portion of the health care expenditures paid on behalf of the employer's active employees. For purposes of GASB Statement No. 75, this expenditure on behalf of the active employee is reclassified as a retiree health care expenditure so that the employer's contributions towards the plan reflect the underlying age-adjusted, retiree benefit costs. Non-employer contributions include the mandatory transfer of accumulated PEBA – Insurance Benefits' reserves and the annual appropriation budgeted by the General Assembly. It is also funded through investment income. For the fiscal year ended June 30, 2021, the Fund's contributions to the SCRHIT plan amounted to \$135,180.

GASB Statement No. 75 requires participating employers to recognize revenue in an amount equal to the employer's proportionate share of the change in the collective net OPEB liability arising from contributions to the OPEB plan during the measurement period from non-employer contributing entities for purposes other than the separate financing of specific liabilities to the OPEB plan. Therefore, employers should classify this revenue in the same manner as it classifies grants from other entities. For the fiscal year ended June 30, 2021, the Fund recognized \$34,646 as non-operating revenue from contributions from non-employer contributing entities.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Contributions and Funding Policies (Continued)

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the SCRHITF, and additions to and deductions from the SCRHITF fiduciary net position have been determined on the same basis as they were reported by the SCRHITF. For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Therefore, benefit and administrative expenses are recognized when due and payable. Investments are reported at fair value.

PEBA, Insurance Benefits issues audited financial statements and required supplementary information for the OPEB Trust Funds. This information is publicly available through the Insurance Benefits' link on PEBA's website at www.peba.sc.gov or a copy may be obtained by submitting a request to PEBA – Insurance Benefits, 202 Arbor Lake Drive, Columbia, SC 29223. PEBA is considered a division of the primary government of the state of South Carolina and therefore, OPEB Trust fund financial information is also included in the annual comprehensive financial report of the state.

Actuarial Assumptions and Methods

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plans (as understood by the employer and plan participants) and include the types of benefits provided at the time the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial Assumptions and Methods (Continued)

Additional information as of the latest actuarial valuation for SCRHITF:

Valuation Date:	June 30, 2019
Actuarial Cost Method:	Individual Entry - Age Normal
Inflation:	2.25%
Investment Rate of Return:	2.75, net of OPEB Plan investment expense; including inflation.
Single Discount Rate:	2.45% as of June 30, 2020
Demographic Assumptions:	Based on the experience study performed for the South Carolina Retirement Systems for the 5-year period ending June 30, 2015.
Mortality:	For healthy retirees, the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females are used with fully generational mortality projections based on Scale AA from the year 2016. Multipliers are applied to the base tables based on gender and employment type.
Health Care Trend Rate:	Initial trend starting at 6.40% and gradually decreasing to an ultimate trend rate of 4.00% over a period of 15 years.
Retiree Participation:	79% for retirees who are eligible for funded premiums. 59% participation for retirees who are eligible for partial funded premiums. 20% participation for retirees who are eligible for non-funded premiums.
Notes:	There were no benefit changes during the year; the discount rate changed from 3.13% as of June 30, 2019, to 2.45% as of June 30, 2020; minor updates were made to the healthcare trend rate assumption.

Roll Forward Disclosure

The actuarial valuation was performed as of June 30, 2019. Update procedures were used to roll forward the total OPEB liability to June 30, 2020 (measurement date used for the Fund's reporting as of June 30, 2021).

Net OPEB Liability

The Net OPEB Liability (NOL) is calculated separately for each OPEB Trust Fund and represents that particular Trust's Total OPEB Liability (TOL) determined in accordance with GASB No. 74 less that Trust's fiduciary net position. The allocation of each employer's proportionate share of the collective Net OPEB Liability and collective OPEB Expense was determined using the employer's payroll-related contributions over the measurement period. This method is expected to be reflective of the employer's long-term contribution effort as well as be transparent to individual employers and their external auditors.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Net OPEB Liability (Continued)

The following table represents the components of the net OPEB liability as of June 30, 2021:

	2021
Total OPEB liability	\$ 5,118,801
Plan fiduciary net position	429,248
Employer's net OPEB liability	<u>\$ 4,689,553</u>
Plan fiduciary net position as a percentage of the total OPEB liability	8.39%
Fund's proportionate share of the collective net OPEB liability	0.025979%

The TOL is calculated by the Trust's actuary, and each Trust's fiduciary net position is reported in the Trust's financial statements. The NOL is disclosed in accordance with the requirements of GASB No. 74 in the Trust's notes to the financial statements and required supplementary information. Liability calculations performed by the Trust's actuary for the purpose of satisfying the requirements of GASB Nos. 74 and 75 and are not applicable for other purposes, such as determining the Trust's funding requirements.

Single Discount Rate

The Single Discount Rate of 2.45% was used to measure the total OPEB liability for the SCRHITF. The accounting policy for this plan is to set the Single Discount Rate equal to the prevailing municipal bond rate. Due to the plan's investment and funding policies, the difference between a blended discount rate and the municipal bond rate would be less than several basis points (several hundredths of one percent).

NOTES TO FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Long-term Expected Rate of Return

The long-term expected rate of returns represent assumptions developed using an arithmetic building block approach primarily based on consensus expectations and market based inputs. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted at the beginning of the 2018 fiscal year. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and adding expected inflation. This information is summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Expected Arithmetic Real Rate of Return</u>	<u>Weighted Long-Term Expected Real Rate of Return</u>
U.S. Domestic Fixed Income	80.00%	0.60%	0.48%
Cash equivalents	20.00%	0.35%	0.07%
Total	100.00%		0.55%
Total expected weighted real return			0.55%
Inflation for actuarial purposes			2.25%
Total expected nominal return			2.80%
Investment return assumption			2.75%

Sensitivity Analysis

The following table presents the SCRHITF's net OPEB liability calculated using a Single Discount Rate of 2.45%, as well as what the plan's net OPEB liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

<u>South Carolina Retiree Health Insurance Plan</u>		
<u>Sensitivity of the Net OPEB Liability to Changes in the Discount Rate</u>		
<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
<u>(1.45%)</u>	<u>Discount Rate</u>	<u>(3.45%)</u>
	<u>(2.45%)</u>	
\$ 5,595,578	\$ 4,689,553	\$ 3,965,571

NOTES TO FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity Analysis (Continued)

Regarding the sensitivity of the SCRHITF's net OPEB liability to changes in the healthcare cost trend rates, the following table presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if were calculated using a trend rate that is one percent lower or one percent higher:

<u>South Carolina Retiree Health Insurance Plan</u>		
<u>Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate</u>		
	Current	
	Healthcare	
1% Decrease	Cost Trend Rates	1% Increase
(5.40% decreasing	(6.40% decreasing	(7.40% decreasing
to 3.00%)	to 4.00%)	to 5.00%)
\$ 3,795,743	\$ 4,689,553	\$ 5,863,383

OPEB Expense

For the fiscal year ended June 30, 2021, the Fund recognized its proportionate share of collective OPEB expense of \$356,810 and recognition of deferred amounts from changes in proportionate share and differences between employer contributions and the proportionate share of total plan employer contributions of (\$45,522) for a total of \$311,288 for the SCRHITF plan.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2021, the Fund reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

South Carolina Retiree Health Insurance Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 134,126	\$ 106,798
Changes of assumptions	697,864	186,762
Net difference between projected and actual earnings on OPEB plan investments	-	10,938
Changes in proportion and differences between employer contributions and proportionate share of contributions	34,855	301,373
Employer contributions subsequent to the measurement date	135,180	-
Total	\$ 1,002,025	\$ 605,871

Fund contributions subsequent to the measurement date of \$135,180 for the SCRHITF plan are reported as deferred outflows of resources and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2022.

As of June 30, 2021, other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

South Carolina Retiree Health Insurance Plan

Year ended June 30:

2022	\$ 21,597
2023	20,085
2024	17,690
2025	59,254
2026	64,703
Thereafter	77,645

NOTES TO FINANCIAL STATEMENTS

NOTE 7. OPERATING LEASES

The Fund leases office space from a party outside of State government and this lease is accounted for as an operating lease. Rental expense under this lease for the year ended June 30, 2021, was \$262,276.

The future minimum lease payments due under this lease are as follows for the year ended June 30:

	Total Minimum Lease Payments
Year Ending June 30,	
2022	\$ 322,423
2023	322,423
2024	322,423
2025	322,423
	<u>\$ 1,289,692</u>

NOTE 8. RELATED PARTY TRANSACTIONS

The Fund has significant transactions with the State of South Carolina and various state agencies. Property and liability coverage is provided for a fee to various State agencies and within the State Fiscal Accountability Authority. The fees are recorded as revenues in the financial statements for the Fund. During the year ended June 30, 2021, the Fund received premiums from other state agencies and divisions of the State Fiscal Accountability Authority in the amount of \$93,499,861. Amounts recorded as premiums receivable in the financial statements of the Fund due from the state and other state entities as of June 30, 2021 amounted to \$38,615,000, net of the associated allowance for uncollectible accounts.

The Fund has financial transactions with various State agencies during the fiscal year. Significant payments were made to SFAA and the Department of Administration (DOA) for printing, telephone, data processing services, purchasing, record maintenance, internal audit and personnel services and to the South Carolina Public Employee Benefit Authority for retirement and insurance plan contributions.

NOTES TO FINANCIAL STATEMENTS

NOTE 9. COMMITMENTS AND CONTINGENCIES

By the nature of its operations and responsibilities as an insurer, the Fund has been named in a number of lawsuits, many of which are pending. A provision has been made in the financial statements for the payment of routine claims. Management is not aware of any other claims that, in their opinion, would have a material effect on the financial statements and, therefore, no liability has been recorded.

As a result of the 2020-2021 Appropriations Act Proviso 104.2, the Fund is to provide funds to cover legal defense costs of the State associated with the Abbeville School Funding litigation case. During the year ended June 30, 2021, the Fund did not incur any legal defense costs associated with this Proviso. However, the ultimate amount of this liability is not known as of the date of our report.

Additionally, as a result of the 2020-2021 Appropriations Act Proviso 104.2, the Fund is to provide funds to cover legal defense costs of the State associated with the Prison Mental Health Care litigation case. During the year ended June 30, 2021, the Fund did not incur any legal defense costs associated with the case. However, the ultimate amount of this liability is not known as of the date of our report.

As a result of the 2020-2021 Appropriations Act Proviso 59.9, the Fund is to provide up to \$50,000 of opposing attorney fees and court costs as ordered by the court in those cases in which the Attorney General defends one or more public officers in their official capacities. During the year ended June 30, 2021, the Fund did not incur any legal defense costs associated with the case. However, the ultimate amount of this liability is not known as of the date of our report.

NOTE 10. RISK MANAGEMENT

The Fund is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for certain types of risks for which it is self-insured (these risks are further described herein). Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. RISK MANAGEMENT (CONTINUED)

The Fund pays insurance premiums to itself, certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered losses sustained during the policy period in accordance with insurance policy and benefit program limits.

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Department of Employment and Workforce);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Public Employee Benefits Authority); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Public Employee Benefits Authority).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Fund acts as an insurance company in that it issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following Fund assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Auto liability for state and non-state owned vehicles; and
3. General torts.

State agencies and other entities are the primary participants in the Fund.

The Fund has recorded insurance premium expense regarding its internal operations in the applicable administrative expense categories. The Fund has not transferred the portion of the risk of loss related to insurance policy deductibles and limits.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. RISK MANAGEMENT (CONTINUED)

The Fund purchases insurance and reinsurance and separately reports the related reinsurance premium and premium expenses. Insurance is purchased to cover risks where the Fund has limited expertise (aircraft insurance and ocean marine insurance). Reinsurance is purchased to limit the Fund's liability for catastrophic loss (property reinsurance), to obtain specialized engineering services (boiler and machinery reinsurance), or to obtain services for which the Fund is not adequately staffed (automobile liability reinsurance). The Fund self-insures Tort Liability Insurance, Automobile Physical Damage Insurance, Medical Professional Liability and the self-insured retention for Property, Inland Marine, and Boiler and Machinery Insurance.

Property reinsurance for catastrophic losses is purchased for losses above the following loss levels:

- \$10,000,000 per occurrence; \$15,000,000 in the aggregate; \$1,000,000 trailing after both occurrence and aggregate

Reinsurance permits partial recovery of losses from reinsurers; however, the Fund, as the direct insurer of the risks, remains primarily liable. As of June 30, 2021, there have been no catastrophe claims in excess of the limit of reinsurance purchased.

NOTE 11. RECONCILIATION OF CLAIMS LIABILITY

The Fund reports liabilities when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Amounts for allocated and unallocated claims adjustment expenses have been included in the calculation of the unpaid claims liability. The liability is reported net of receivables for salvage, subrogation, and reinsurance. The unpaid policy claims liability includes a provision for reported claims and claims incurred but not reported. The liability for claims incurred but not reported is an actuarial estimate based on the most current historical claims experience. This estimate does not necessarily result in an exact amount. The Fund continually reviews estimates of liabilities for incurred claims and revises those estimates as changes occur.

NOTES TO FINANCIAL STATEMENTS

NOTE 11. RECONCILIATION OF CLAIMS LIABILITY (CONTINUED)

Changes in the balances of claims liabilities during the past two fiscal years were as follows:

	2021 <u>(in thousands)</u>	2020 <u>(in thousands)</u>
Unpaid claims and claims adjustment expenses at the beginning of the year	<u>\$ 334,770</u>	<u>\$ 320,641</u>
Incurring claims and claim adjustment expenses:		
Provision for insured events of the current year	18,772	21,539
Increase in provision for insured events of prior years	<u>70,339</u>	<u>95,447</u>
Total incurred claims and claim adjustment expenses	<u>89,111</u>	<u>116,986</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	19,005	18,938
Claims and claim adjustment expenses attributable to insured events of prior years	<u>71,212</u>	<u>83,919</u>
Total payments	<u>90,217</u>	<u>102,857</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u>333,664</u>	<u>334,770</u>
The above totals are comprised of the following:		
Claims payable	213,620	214,008
Claims incurred but not reported	<u>120,044</u>	<u>120,762</u>
Total claims payable	<u>\$ 333,664</u>	<u>\$ 334,770</u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUND'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE PLAN YEAR ENDED JUNE 30,

South Carolina Retirement System					
Plan Year Ended June 30,	Fund's proportion of the net pension liability	Fund's proportionate share of the net pension liability	Fund's covered payroll	Fund's share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2020	0.020517%	\$ 5,242,551	\$ 2,058,080	254.7%	50.7%
2019	0.021806%	4,979,148	1,969,793	252.8%	54.4%
2018	0.022237%	4,982,507	2,946,642	169.1%	54.1%
2017	0.030862%	6,947,490	2,513,166	276.4%	53.3%
2016	0.027126%	5,794,070	2,211,011	262.1%	52.9%
2015	0.024571%	4,660,099	2,035,873	228.9%	57.0%
2014	0.024011%	4,133,937	1,981,230	208.7%	59.9%
2013	0.024011%	4,306,757	2,576,340	167.2%	56.4%

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUND PENSION CONTRIBUTIONS FOR THE FISCAL YEAR ENDED JUNE 30,

South Carolina Retirement System						
Fiscal Year Ended June 30,	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Fund's covered payroll	Contributions as a percentage of covered payroll	
2021	\$ 315,421	\$ 315,421	-	\$ 2,027,129	15.56%	
2020	320,237	320,237	-	2,058,080	15.56%	
2019	286,802	286,802	-	1,969,793	14.56%	
2018	399,561	399,561	-	2,946,642	13.56%	
2017	290,522	290,522	-	2,513,166	11.56%	
2016	241,000	241,000	-	2,211,011	10.90%	
2015	221,910	221,910	-	2,035,873	10.90%	
2014	210,010	210,010	-	1,981,230	10.60%	

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

Actuarial assumptions used in determining the statutorily required contribution are as follows:

System	SCRS
Calculation date	July 1, 2018
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year Smoothed
Amortization method	Level % of pay
Amortization period	29 year maximum, closed period
Investment return	7.25%
Inflation	2.25%
Salary increases	3.00% plus step-rate increases for members with less than 21 years of service
Mortality	2016 Public Retirees of South Carolina Mortality Tables for Males and Females, both projected at Scale AA from the year 2016. Male rates are multiplied by 100% for non-educators and 92% for educators. Female rates multiplied by 111% for non-educators and 98% for educators.

SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUND'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY FOR THE PLAN YEAR ENDED JUNE 30,

South Carolina Retiree Health Plan

Plan Year Ended June 30,	Fund's proportion of the net OPEB liability	Fund's proportionate share of the net OPEB liability	Fund's covered payroll	Fund's share of the net OPEB liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2020	0.025979%	\$ 4,689,553	\$ 2,268,505	206.7%	8.39%
2019	0.027744%	4,195,347	2,234,819	187.7%	8.44%
2018	0.028207%	3,997,047	2,119,212	188.6%	7.91%
2017	0.028939%	3,919,501	2,259,625	173.5%	7.60%
2016	0.029264%	4,233,920	2,381,426	177.8%	6.62%

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

The discount rate changed from 3.59% as of June 30, 2017 to 3.62% as of June 30, 2018 to 3.13% as of June 30, 2019 to 2.45% as of June 30, 2020.

SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUND OPEB CONTRIBUTIONS FOR THE FISCAL YEAR ENDED JUNE 30,

South Carolina Retiree Health Plan						
Fiscal Year Ended June 30,	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Fund's covered payroll	Contributions as a percentage of covered payroll	
2021	\$ 135,180	\$ 135,180	\$ -	\$ 2,162,889	6.25%	
2020	137,245	137,245	-	2,268,505	6.05%	
2019	122,915	122,915	-	2,234,819	5.50%	
2018	112,954	112,954	-	2,119,212	5.33%	
2017	120,438	120,438	-	2,259,625	5.33%	

Notes to the Schedule:

The schedule will present 10 years of information once it is accumulated.

The actuarial assumption used in determining the statutorily required contribution are disclosed in Note 6 of the notes to the financial statements.

COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the **South Carolina State Fiscal Accountability Authority Insurance Reserve Fund** (the "Fund"), a fund of the South Carolina State Fiscal Accountability Authority, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 15, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The script is cursive and fluid, with the ampersand clearly visible.

Columbia, South Carolina
September 15, 2021

**SOUTH CAROLINA STATE FISCAL ACCOUNTABILITY AUTHORITY
INSURANCE RESERVE FUND**

**SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

**SECTION I
SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditor's report issued

Unmodified

Internal control over financial reporting:

Material weaknesses identified?

____ Yes X No

Significant deficiencies identified not considered
to be material weaknesses?

____ Yes X None Reported

Noncompliance material to financial statements noted?

____ Yes X No

**SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

None reported

**SECTION III
STATUS OF PRIOR YEAR AUDIT FINDINGS**

None reported